GLENBRIAR DEVELOPMENTS LTD.

1998 ANNUAL REPORT

HIGHLIGHTS

Glenbriar Developments Ltd.	Year ended September 30	
	1997	**1996**
Revenue	**$411,479**	$21,073
Cash flow	**271,230**	1,665
Earnings	**115,993**	1,665
Earnings per share	**$0.014**	$ 0.001
Cash flow per share	**$0.034**	$ 0.001
Average Common Shares outstanding	**8,010,000**	6,500,000
Gas production (mcf/day)	**618**	-
Gas price (per mcf)	**$2.21**	-
Oil production (barrels/day)	**0.3**	-
Oil price (per barrel)	**$15.52**	-

Measurement conversions
acre=*43,560 square feet=0.405 hectares* ***barrel***=*35 Imperial gallons=0.159* m^3
mcf=*1000 cubic feet=28.32* m^3 ***mmcf***=*1 million cubic feet=28.32* $10^3 m^3$

CORPORATE INFORMATION

Head Office
Glenbriar Developments Ltd.
3406 6 St SW
Calgary, AB T2S 2M4

Phone: (403) 243-9766
Fax: (403) 243-1567
e-mail: matheson@isdepartment.com

Stock Exchange Listing
Alberta Stock Exchange
Trading symbol: **GDV**

Auditors
Deloitte & Touche, Calgary

Banker
National Bank of Canada, Calgary

Registrar and Transfer Agent
CIBC Mellon Trust Company, Calgary

Officers
Robert D. Matheson, *President & CEO*, Calgary
Jean-Marc Pesant, *Controller & CFO*, Calgary
Glenn F. H. Matheson, *Vice-President*, Calgary

Directors
Ronald J. Cargo, Calgary
Robert D. Matheson, Calgary
Glenn F. H. Matheson, Calgary
Brian Tijman, Richmond, B.C.
Richard VanAppelen, Calgary

Annual Meeting of Shareholders
Thursday, March 19, 1998
4:00 pm, Viking Room
Calgary Petroleum Club
319 5 Ave SW, Calgary

GLENBRIAR DEVELOPMENTS LTD.

3406 6 St SW, **Calgary**, AB T2S 2M4 **Phone** (403) 243-9766 **Fax** (403) 243-1567 **E-mail** matheson@isdepartment.com

PRESIDENT"S MESSAGE

February 12, 1998

To Our Shareholders

We enclose a copy of the audited financial statements for Glenbriar Developments Ltd. for the year ended September 30, 1997, together with a Notice of Meeting and Information Circular for the Annual and Special Meeting of Shareholders to be held in Calgary on March 19, 1998. If you cannot attend the meeting, please execute and return the enclosed proxy form in order to vote.

September 30, 1997 marks completion of Glenbriar's first year of operations as an oil and gas company. Gas prices were strong in fiscal 1997, averaging $2.21 per mcf at the Nova plant gate and providing net cash flow of $271,230 for the year. In recognition of high property prices in 1997, Glenbriar chose to reinvest this cash flow in development drilling for oil and establishing gas plays for drilling in fiscal 1998, rather than in making further acquisitions.

Glenbriar's principal producing asset is a 55% working interest in a freehold gas well and 13% interest in a neighbouring gas plant in the Cold Lake area of Alberta. In July 1997, Glenbriar purchased 4 sections of land within 2 to 5 miles from its existing production, and subsequently sold a 50% interest in those lands in exchange for cash, seismic, surface access and a short term drilling commitment. In the last few weeks, 2 successful gas wells have been drilled on these lands, with 4 feet and 9 feet of Colony gas pay respectively. Glenbriar expects to have these wells tied in and producing by the end of fiscal 1998, adding substantially to existing production and cash flow.

In addition to its gas operations, Glenbriar participated in the drilling of 7 wells resulting in 7 oil wells at interests ranging from 3 to 12% in calendar 1997. These wells are being production tested. In November 1997, Glenbriar participated at a 3% working interest in the reworking of 3 shut-in oil wells, which has allowed those wells to be placed back on production.

Glenbriar expects lower oil and gas prices in fiscal 1998, which should lead to more favourable pricing for oil and gas properties. Accordingly, Glenbriar anticipates property acquisitions may play a greater role in its activities in fiscal 1998.

Thank you for your interest and support in Glenbriar.

Yours very truly,

Robert Matheson

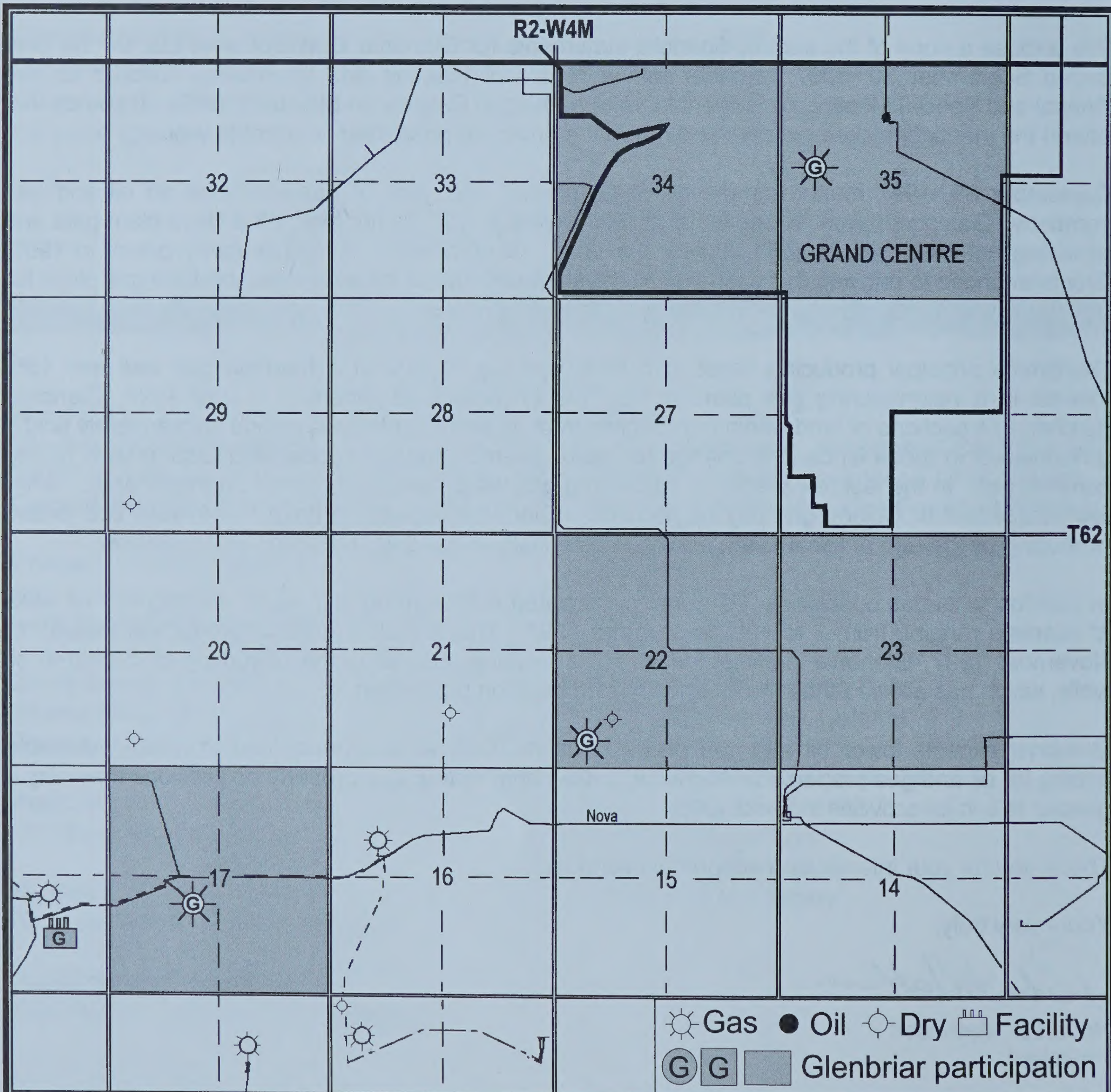
Robert D. Matheson
President

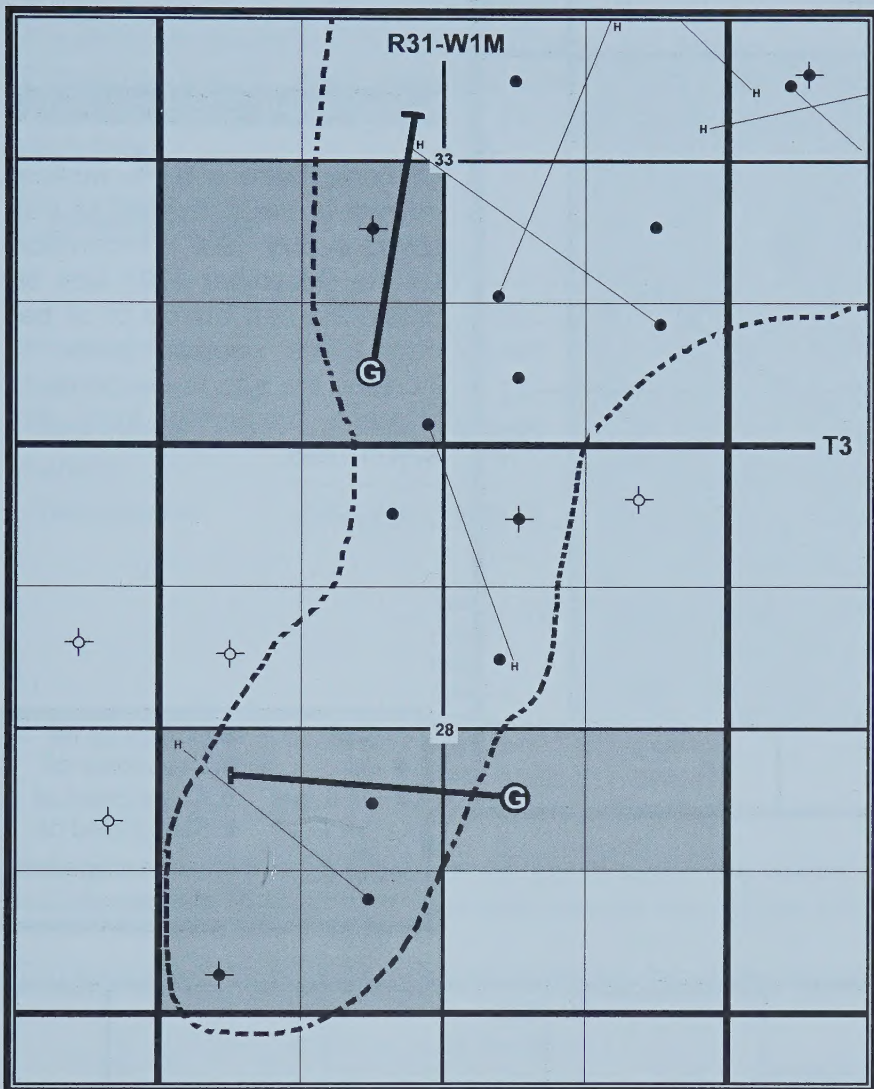
OPERATIONS

Gas Properties

Cold Lake, Alberta

Glenbriar owns 55% working interest in the gas well at 6-17-62-2-W4M and 13% of the neighbouring gas plant at 7-18-62-2-W4M. Glenbriar purchased 4 sections of land at the Crown land sale in July, consisting of sections 22, 23, 34 and 35-62-2-W4M, and subsequently sold a 50% interest in the lands for cash, surface access, seismic, and a short term drilling commitment. In January 1997, Glenbriar participated in 2 successful gas wells at 4-22 and 12-35-62-2-W4M, with 4 and 9 feet respectively of Colony gas pay. The wells have not been production tested. Glenbriar expects to tie-in these wells in fiscal 1998.

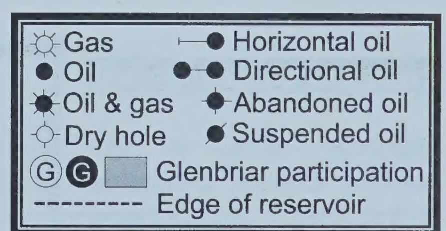




Ingoldsby, Saskatchewan

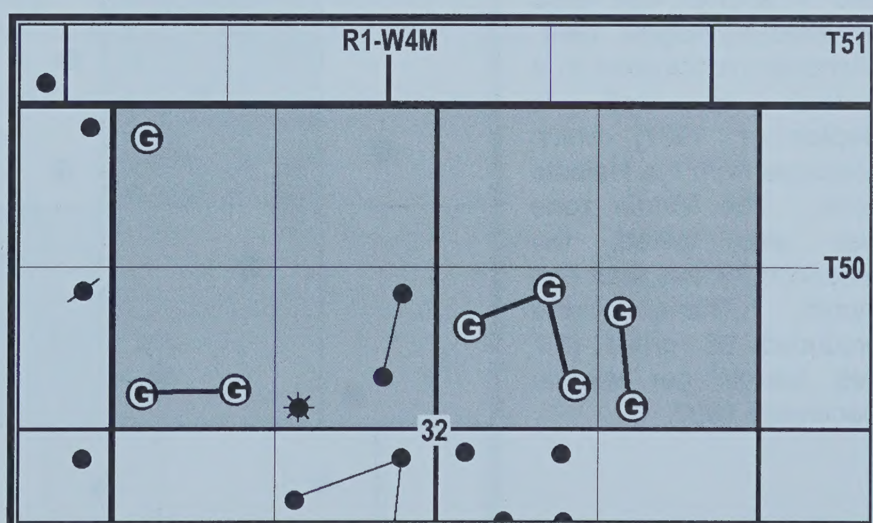
Glenbriar owns a 3.5% working interest in the horizontal oil well drilled at 3-33-3-31-W1M in October 1997, which produced 197 gross (6.9 net) barrels of oil per day in December 1997 through a 29/64" choke.

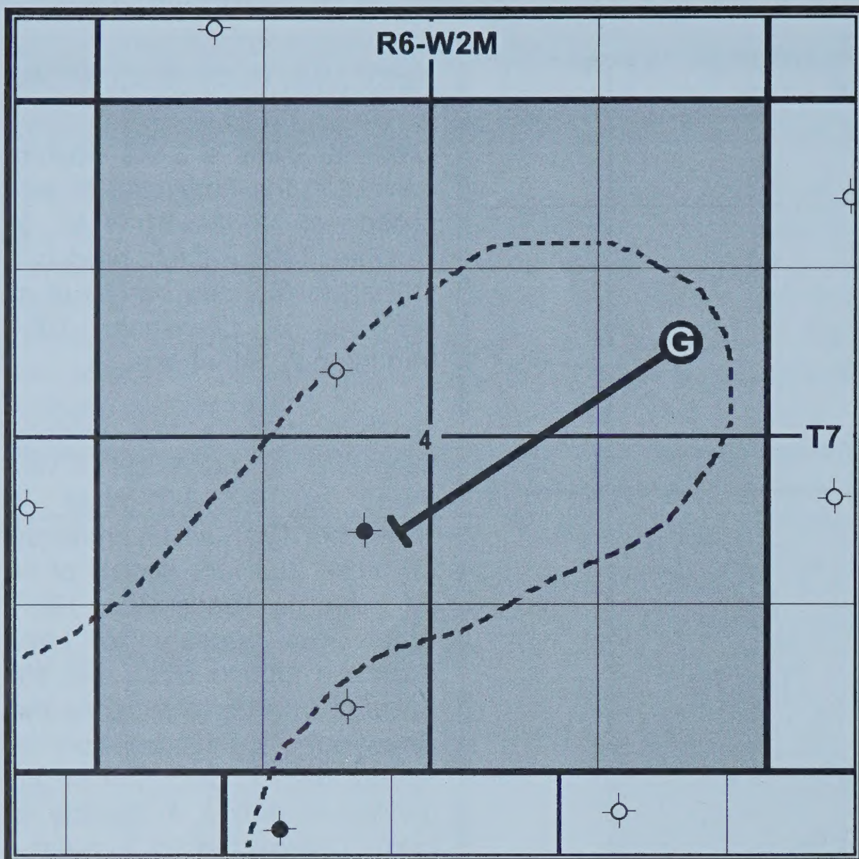
Glenbriar owns a 12% working interest in the horizontal oil well drilled at 7-28-3-31-W1M in November 1997, which produced 77 gross (9.2 net) barrels of oil per day in December 1997. Water cut appears to have stabilized around 50%, and the operator intends to increase the screw pump by 50 rpm from its current level of 225 rpm in the coming months. A flowline is being constructed to a nearby battery in order to reducing trucking costs.



Lloydminster, Alberta

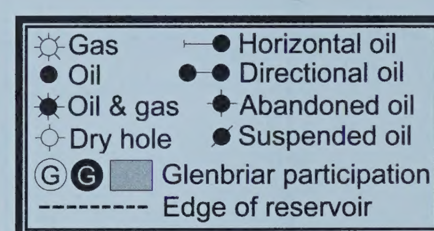
In August 1997, Glenbriar purchased a 3% working interest in 2 producing and 3 shut-in oil wells in this area. Since then, Glenbriar has participated in the drilling of 3 new oil wells and in the reworking of the 3 shut-in wells. These 8 oil wells produced 209 gross (6.3 net) barrels of oil per day in December 1997. 5 additional drilling locations have been identified on these lands.





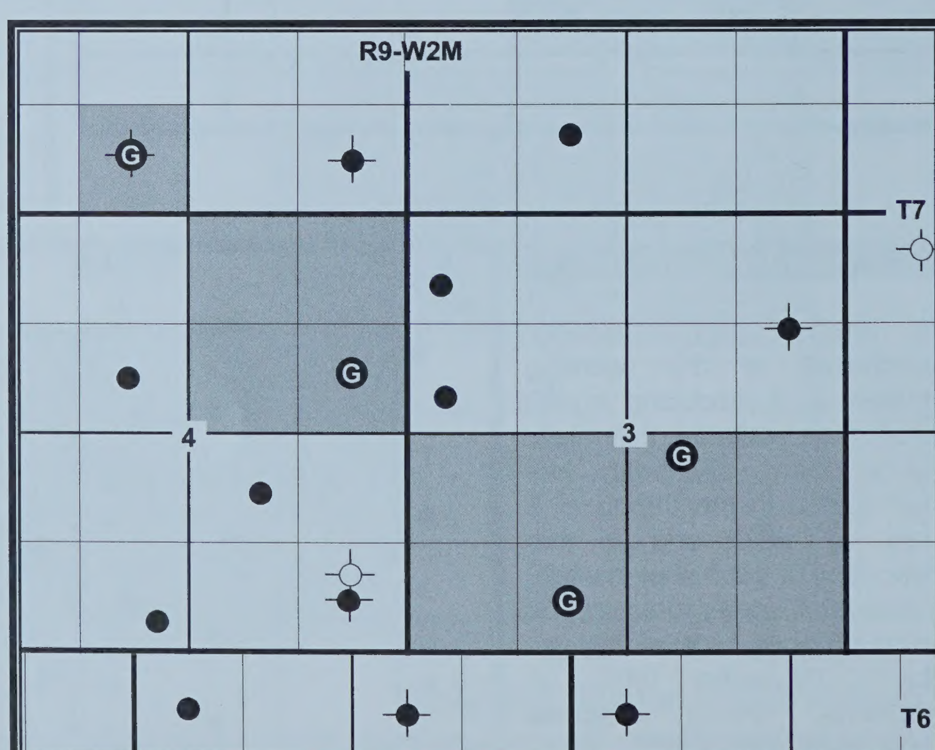
Morrisview, Saskatchewan

Glenbriar owns a 6.4% working interest in this horizontal oil well drilled in July 1997. Production for the December 1997 was 38 gross (2.4 net) barrels of oil per day. The operator plans to increase the size of the pump to increase production from this well in 1998.



Huntoon, Saskatchewan

Glenbriar has a 5% working interest in 4 wells in this area. 2 producing and 1 shut-in well were acquired in August 1997. Glenbriar participated in a vertical oil well in September 1997, which produces from the Halbrite zone. The Midale zone was also tested, but produced for less than one month. These wells produced 35 gross (1.7 net) barrels per day in December 1997.



Reserves

Reliance Engineering Group Ltd. ("Reliance") of Calgary, Alberta prepared an evaluation entitled Economic Evaluation of Certain Petroleum and Natural Gas Reserves effective October 1, 1997 ("Reliance Report"), which appraised Glenbriar's petroleum and natural gas reserves. The following tables summarize the evaluation of the Reliance Report of such reserves and estimated future net cash flow.

Escalated prices	Gas (mcf)		Oil (barrels)		Cumulative future cash flow ($000's) Discounted at				
	Gross	Net	Gross	Net	0%	10%	12%	15%	20%
Proven producing	1,127,000	902,000	26,700	20,100	2,594	1,728	1,618	1,478	1,294
Proven non-producing	--	--	5,000	3,300	51	36	33	31	27
Total proven	**1,127,000**	**902,000**	**31,700**	**23,400**	**2,645**	**1,764**	**1,651**	**1,509**	**1,321**
Probable	--	--	32,800	23,900	273	181	169	152	129
Total reserves	**1,127,000**	**902,000**	**64,500**	**47,300**	**2,918**	**1,945**	**1,820**	**1,661**	**1,450**

Year	Gas prices ($/mcf - Pan Alberta Gas)	Oil prices ($Cdn at Edmonton)
1997	2.12	26.90
1998	2.30	27.25
1999	2.60	27.55
2000	2.72	27.90
2001	2.86	28.85
2002	3.00	29.35
Subsequent	+5%/yr	+3.5%/yr

The future cash flow estimates in the above cases are before income tax and may not reflect fair market value of the reserves. Probable reserves are not risk adjusted.

The following changes have occurred since the date of the Reliance Report:

1. Oil and gas prices have declined.
2. The horizontal well at Ingoldsby 7-28-3-31-W1M was drilled in November, which confirmed the presence of reserves classified as probable in the Report.
3. 3 shut-in oil wells at Lloydminster were reworked and are now producing 41 gross (1.2 net) barrels of oil per day.
4. 2 successful gas wells have been drilled in the Cold Lake area. The Report did not include these lands.

Deloitte & Touche

Chartered Accountants

2400 Scotia Centre
700 - 2nd Street S.W.
Calgary, Alberta T2P 0S7

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Auditors' Report

To the Shareholders of
Glenbriar Developments Ltd.

We have audited the balance sheets of **Glenbriar Developments Ltd.** as at September 30, 1997 and 1996 and the statements of earnings and retained earnings and changes in financial position for the years ended September 30, 1997 and 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 1997 and 1996, and the results of its operations and the changes in its financial position for the years ended September 30, 1997 and 1996 in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

Calgary, Alberta
December 22, 1997

GLENBRIAR DEVELOPMENTS LTD.

Statements of Earnings and Retained Earnings
Years Ended September 30

	1997 $	1996 $
REVENUE		
Oil and gas sales	499,166	-
Less royalties	88,735	-
Net oil and gas sales	410,431	-
Interest income	1,048	21,073
	411,479	21,073
EXPENSES		
General and administrative	49,600	19,408
Production	45,701	
Depletion and amortization	122,220	-
Interest and bank charges	19,385	-
	236,906	19,408
EARNINGS BEFORE INCOME TAXES	174,573	1,665
PROVISION FOR INCOME TAXES (Note 8)		
Current	22,980	-
Deferred	35,600	-
	58,580	-
NET EARNINGS	115,993	1,665
RETAINED EARNINGS, BEGINNING OF YEAR	6,053	4,388
RETAINED EARNINGS, END OF YEAR	122,046	6,053
NET EARNINGS PER SHARE	0.014	0.001

GLENBRIAR DEVELOPMENTS LTD.

Balance Sheets
September 30

	1997 $	1996 $
ASSETS		
CURRENT		
Cash	**94,770**	394,220
Accounts receivable	**37,558**	708
Prepaid expenses	**-**	4,857
	132,328	399,785
Property, plant and equipment (Note 4)	**868,031**	-
	1,000,359	399,785
LIABILITIES		
CURRENT		
Bank loan payable (Note 5)	**200,000**	-
Accounts payable and accrued liabilities	**42,218**	-
Income taxes payable	**22,980**	-
	265,198	-
Deferred income taxes	**35,600**	-
Provision for site restoration and abandonment	**2,583**	-
	303,381	-
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**574,932**	393,732
Retained earnings	**122,046**	6,053
	696,978	399,785
	1,000,359	399,785

APPROVED BY THE BOARD

............................**Director**

............................**Director**

GLENBRIAR DEVELOPMENTS LTD.

Statements of Changes in Financial Position
Years Ended September 30

	1997 $	1996 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	**115,993**	1,665
Depreciation and depletion	**122,220**	-
Deferred income taxes	**35,600**	-
	273,813	1,665
Changes in non-cash operating working capital items	**33,205**	(3,845)
	307,018	(2,180)
FINANCING		
Increase in share capital	**181,200**	-
Increase in bank loan	**200,000**	-
	381,200	-
INVESTING		
Property, plant and equipment	**(987,668)**	-
NET CASH OUTFLOW	**(299,450)**	(2,180)
CASH POSITION, BEGINNING OF YEAR	**394,220**	396,400
CASH POSITION, END OF YEAR	**94,770**	394,220

1. NATURE OF BUSINESS

Glenbriar Developments Ltd. ("the Corporation") was incorporated under the Business Corporations Act (Alberta) on July 15, 1994 and remained inactive until September 30, 1996, except for the issuance of share capital.

The Corporation's activities involved the identification and evaluation of opportunities for the acquisition of corporations, properties, assets, or businesses and, negotiations of a major transaction (Note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and natural gas operations

The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, production equipment and related facilities, costs of drilling both productive and non-productive wells, geological and geophysical expenditures and certain other overhead expenditures.

Total capitalized costs are depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by management and reviewed by independent reserve engineers. The relative volumes of petroleum and natural gas reserves and production are converted into a common unit of measure on the basis of 10 mcf of natural gas to 1 barrel of oil.

In applying the full cost method of accounting, capitalized costs including provision for necessary future development expenditures, less depletion and depreciation, are restricted from exceeding an amount equal to the estimated undiscounted future net revenues from proved reserves. This is based on year end prices and costs, less the aggregate estimated future abandonment costs net of salvage values, general and administrative, financing and income tax costs derived from proved reserves, plus the lower of cost and estimated fair value of undeveloped properties. Should this comparison indicate an excess carrying value, a write-down would be recorded.

All of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Future site restoration and site abandonment costs

The Corporation provides for future site restoration and abandonment costs based on the unit-of-production method. The provision is included in depletion and depreciation in the statement of earnings.

3. MAJOR TRANSACTION

On November 18, 1996, the Corporation completed a major transaction whereby it acquired a 55% working interest in 640 acres of land containing one producing gas well which is subject to a 20% freehold royalty and acquired a 13% ownership interest in a gas plant.

The total purchase price aggregated $670,000, of which $550,000 was paid in cash and $120,000 was paid by way of common shares issued at $.10 per share. A portion of the cash required was obtained through a bank loan.

4. PROPERTY, PLANT AND EQUIPMENT

	1997 $	1996 $
Petroleum and natural gas properties	**806,058**	-
Production equipment and facilities	**168,160**	-
Computers and other	**13,450**	-
	987,668	-
Accumulated depreciation and amortization	**119,637**	-
	868,031	-

5. BANK LOAN

The Corporation has entered into an agreement with a Canadian financial institution to borrow up to $400,000 through a revolving demand loan, with interest only payments commencing after closing at an interest rate of prime plus 1.25% per annum, payable monthly, and subject to periodic review. The agreement further provides for an additional reducing demand acquisition loan of $200,000 for future acquisitions, with equal monthly payments of principal plus interest at the prime rate plus 1.5% per annum, payable monthly. The loan is secured by a general assignment of book debts, a first and floating charge debenture for $2,500,000 and an assignment of material sales contracts.

6. **SHARE CAPITAL**

	Number	Amount $
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares of one or more series		
Initial private placement of shares	4,200,000	**210,000**
Public offering	2,000,000	**200,000**
Less share issue costs	-	**(46,268)**
Private placement	300,000	**30,000**
Balance at September 30, 1996	6,500,000	**393,732**
Issued on acquisition of oil and gas properties	1,200,000	**120,000**
Stock options exercised	612,000	**61,200**
Balance at September 30, 1997	8,312,000	**574,932**

In 1996, the Corporation established a Stock Option Plan for its directors and officers and reserved 620,000 shares under this plan. As at September 30, 1996, options were granted to purchase 612,000 common shares at a price of $0.10 per share, expiring September 30, 1999. These options were exercised in the quarter ended December 31, 1996.

In the current year, the Corporation increased the number of shares reserved under the Stock Option Plan to 831,200 and granted options to purchase 600,000 common shares at a price of $0.11 per share, expiring January 31, 1998. 400,000 of these options were exercised in the quarter ended December 31, 1997.

7. **COMMITMENTS**

Effective September 17, 1997, the Board of Directors approved an Executive Stock Compensation Plan ("the Plan"). Under the Plan, designates are eligible to receive up to 217,020 shares in 1997 and 198,750 shares in 1998. The compensation shall be determined in two parts. The base amount of compensation will be set yearly in advance. The incentive amount will be determined after the year based on a review of the Corporation's performance. The Board of Directors can grant additional amounts to certain individuals who have been instrumental in assisting the Corporation in achieving superior performance. The total number of the Corporation's shares granted to each participant, in a calendar year, shall not exceed 1% of the issued and outstanding common shares. The Plan has yet to be approved by the shareholders. If the Plan is not approved, the amounts will become payable in cash.

8. INCOME TAXES

Income tax expense is different than the amount computed by applying the combined expected Canadian federal and provincial tax rates of 44.54% to income before taxes. The reasons for these differences are as follows:

	1997 $	1996 $
Computed expected tax expense	**77,755**	-
Increase (decrease) in taxes resulting from		
Crown mineral taxes	**8,004**	-
Resource allowance	**(24,523)**	-
Application of tax losses carried forward	**(4,710)**	-
Other	**2,054**	-
	58,580	-